

October 18, 2000

Ms. Karen Amos
Office of State Budget
1122 Lady Street, 12th Floor
Columbia, SC 29201

Dear Ms. Amos:

I am pleased to submit herewith the State Board of Financial Institutions Annual Accountability Report for Fiscal Year 1999-2000. Included is a disk in Microsoft Word format containing this file.

The State Board of Financial Institutions is responsible for the examination and supervision of state-chartered banks, savings institutions, credit unions, trust companies, consumer finance companies, deferred presentment companies, and check cashing companies. The Board also has responsibility for funeral homes licensed to sell pre-need funeral contracts. For reporting purposes, statistics are kept on a calendar year basis.

The Board works closely with the Department of Consumer Affairs to resolve complaints or concerns consumers might have and to help educate the public on how to shop for credit. We work very closely with all the state chartered financial institutions within the State to assist and guide them in meeting statutory and regulatory requirements so that they may better serve the public.

Both divisions of this Board are considered of critical importance; however, we have ranked them according to program costs or funds managed or processed in those areas.

If you have any questions regarding the information provided, please contact Grady L. Patterson, Jr., Chairman 734-2101; Louie A. Jacobs-Commissioner of Banking 734-2001; or C. Dean Bratton-Director of Consumer Finance 734-2020.

Very truly yours,

Grady L. Patterson, Jr.
Chairman

Enclosure

STATE BOARD OF
FINANCIAL INSTITUTIONS

ANNUAL ACCOUNTABILITY REPORT

FY 1999-2000

**STATE BOARD OF FINANCIAL INSTITUTIONS
ANNUAL ACCOUNTABILITY REPORT
1999-2000**

EXECUTIVE SUMMARY

The State Board of Financial Institutions supervises financial institutions under its jurisdiction through the Bank Examining Division and the Consumer Finance Division. This oversight includes the promulgation of regulations and instructions relating to the supervision of financial institutions, as well as the consideration of applications for new banks, trust companies, savings and loan associations, credit unions, consumer finance licenses, deferred presentment licenses, regular check cashing licenses, and pre-need funeral contract licenses, and the consideration of applications for branches of banks, savings and loan associations, credit unions, and trust companies. A brief summary of our efforts and accomplishments in each Division is provided for review.

Bank Examining Division

In addition to meeting the statutory requirements for the establishment and supervision of state-chartered banks, savings and loan associations, and credit unions and the licensing of funeral homes for pre-need funeral contract licenses, the Examining Division has identified several significant accomplishments in FY 2000. The Division enhanced the training for bank examiners by developing a more formal internal training program. This reduced training time in the field by approximately 20%.

A review of capital adequacy, earnings, and past due and nonaccrual loans was performed quarterly on all banks, and the reviews were utilized to determine supervisory strategies. Two new State chartered banks were opened in 1999, and the Division tracked the performance of these newly established financial institutions by performing on-site examinations and by analysis of financial information and communicating with these institutions as needed. Revision of the application and survey report for banks to establish branches resulted in a 60% reduction in the time required to prepare the survey report. All examinations of financial institutions were completed within the timeframes required by law. The examinations of preneed funeral contract licensees were completed within the timeframes of the program objectives. The Division continuously reviews and solicits ideas through staff meetings on ways to improve operations without compromising the mission of the agency.

Consumer Finance Division

The Consumer Finance Division has responsibility for supervision, licensing, and examination of all consumer finance companies, deferred presentment and check cashing companies in the state. All examinations were conducted within prescribed time frames as required by law and within available resources. The deferred presentment companies increased by 69% in 1999 and the check cashing companies increased by 54%. Overall the number of examinations conducted increased by 29%.

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MISSION STATEMENT:

The mission of the Board of Financial Institutions is to serve the citizens of the State of South Carolina by preserving a sound state chartered financial community and protecting the borrowing public by ensuring that the state banking and consumer finance laws and regulations are followed. To this end, the State Board of Financial Institutions is responsible for the supervision, licensing and examination of all the state chartered banks, savings and loan associations, credit unions, consumer finance companies, deferred presentment and regular check cashing companies.

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LEADERSHIP SYSTEMS

The State Board of Financial Institutions consists of a ten-member board, of which the State Treasurer serves as ex officio member and Chairman. The Governor appoints the other nine members with the advice and consent of the Senate. These officials develop and implement policy with the assistance of senior staff. Input from employees is obtained from individual and group interaction through meetings and discussions. Professionalism and prompt response to client inquiries and requests are stressed with an emphasis on quality service.

Through monthly meetings the State Board of Financial Institutions establishes policy, reviews applications and considers other matters coming before the Board.

The Chairman supervises the Board's Division Directors by providing advice and counsel, guidance and direction through daily communication. The Division Directors are responsible for the daily management of their divisions within statutory guidelines, and for implementation of the Board's policies and regulations. Weekly meetings are held with examiners to review examinations, discuss assignments and set objectives.

Various financial institution associations provide valuable input and feedback on Board policies and regulations, and on any issue related to their industry which might require action by the Board.

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CUSTOMER FOCUS AND SATISFACTION

As a regulatory body, the agency strives to maintain the proper balance of performing its statutory responsibilities without imposing an undue burden on the institutions under its jurisdiction. Examining and licensing procedures are periodically reviewed and changes made where possible to insure that the agency is utilizing its resources properly with an emphasis on client service. A conscientious effort is made to maintain a dialogue with institutions under the Board's supervision and responses from these institutions are addressed in a timely manner. The agency strives to provide prompt response to citizen inquiries.

The State Treasurer receives feedback from citizens through his public appearances, through the office Web Site and his personal E-mail access as well as from the usual correspondence and telephone. All inquiries are taken seriously and response is provided quickly.

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OTHER PERFORMANCE EXCELLENCE CRITERIA

Strategic Planning

Strategies and plans are developed with an emphasis on the Mission of the agency. The Chairman, Board members, and the two division directors are the key participants in the planning process. Key factors considered in the planning and development of strategies are as follows:

- (1) Insuring that statutory responsibilities are met.
- (2) Insuring that procedures are in place to adequately monitor the safety and soundness of depository institutions under the Board's jurisdiction.
- (3) Insuring that the interests of the citizens of the State are of paramount concern.
- (4) Insuring that technology is used effectively.
- (5) Insuring that resources of the agency are used efficiently and effectively.
- (6) Insuring that there is an emphasis on quality of service.

Programs and procedures are periodically reviewed and measures implemented to address changes in the financial industry and the economic environment. The number of examinations conducted is reviewed at least quarterly and timeframes for the processing of reports are periodically reviewed.

Information and Analysis

Bank Examining Division:

The Board of Financial Institutions (Board) is required by Section 34-3-320 to examine all State chartered banks and savings and loans at least once every 24 months. The Board is required by Section 34-26-240 to examine State chartered credit unions at least once every 24 months. Section 32-7-110 requires that the Board enforce the provisions of Chapter 7, Title 32, which deals with preneed funeral contracts issued by funeral homes, and Section 32-7-70 gives the Board the authority to examine the books, records, and accounts of the funeral homes. The Board also examines state chartered trust companies.

The Examining Division carefully schedules examinations of financial institutions under its jurisdiction in order to accomplish its objective of examining all financial institutions within the timeframes required by law. In addition, off-site analysis is performed on all financial institutions in order to determine supervisory strategies. The off-site analysis enables the Division to determine which financial institutions are in greatest need of examination and which institutions require extra consultation and direction. This enables the Division to reach its ultimate goal of preserving a sound State chartered financial community.

Consumer Finance Division:

The Consumer Finance Division has in place an effective performance based measurement system consisting of measures that were developed by the division to reflect the information needed to make data-based decisions to monitor inputs, outputs, and outcomes. These measures are tracked daily, weekly, and monthly to insure that the system in place is operating properly and providing the service desired.

Areas being measured link directly to our program objectives and to our mission statement. Items that measure increased workload while maintaining the same or reduced resources reflect an efficient use of resources. These same measures are used to prepare the budget for the next fiscal year. A trend analysis is used to determine the amount of resources and the allocation of those resources required in running an effective and efficient department.

By law, this Division is required to examine our licensees within certain time frames. Employees use these data measurements in their daily work to make effective decisions that produce results that compliment our program objectives and thereby fulfill our mission statement.

Human Resource Focus

Personnel resources consist of an office staff that is responsible for the daily administration of the agency and a staff of field examiners. The examiners are a group of specialists trained in the examination of financial institutions. An examination report is prepared by the examiners and submitted to the office for review and distribution to the financial institutions and other regulatory authorities.

Training is provided by individual instruction and through the utilization of schools, which specialize in the training of financial institution examiners. Employees receive periodic evaluations, and promotional opportunities are available to those who are qualified. The recruitment strategy involves participation in targeted career fairs such as the State Government Career Fair and the use of technological advances such as Internet postings and application forms.

Periodic meetings are held with all examiners to review the examination process and to consider methods to implement a more efficient and effective examination process. Employees are encouraged to share ideas concerning the examination process with each other and with management. These meetings help to ensure effective communication, cooperation, and knowledge sharing among the employees.

Process Management

Bank Examining Division:

The primary product of the Examining Division is the examination report that is produced when financial institutions are examined. After the reports are produced by examiners, they are reviewed by office staff to ensure that they are accurate and of high quality. In order to improve future reports, examiners are informed when errors are found or changes are made. Management tracks the turnaround time of the reports in an effort to send the reports to the financial institutions and other regulators in a timely fashion. Management also keeps abreast of changes in the financial industry and relays these changes to examiners through memos and meetings. These

steps are taken in order to produce a report that is of use to both regulators and financial institutions and in order to keep the State chartered financial institutions in sound financial condition for the citizens of South Carolina.

Consumer Finance Division:

The department constantly researches and reviews the systems of other related government agencies for processes to enhance the delivery of our services. Subsequently, the department has a working relationship with similar agencies in other states, where we share information useful in the daily decision making process.

In an effort to evaluate one of our services, this department is in the process of implementing a device to measure customer satisfaction (in the form of an exit survey). Our commitment to excel is apparent in our continued efforts to enhance and improve the efficiency and effectiveness of our department.

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DESCRIPTION OF PROGRAMS:

Priority Ranking : First

Program Name: State Board of Financial Institutions - Bank Examining Division

Program Goal: Examine and supervise banks, trust companies, savings and loan associations, and credit unions. Issue licenses to funeral home directors to sell preneed funeral contracts, provided they qualify.

Program Objectives: Examine all state-chartered banks, savings and loan associations, credit unions, trust companies, and a business development corporation at least once within a 24 month period.
Examine all preneed burial contract licensees at least once every 18 months.
Process applications for new charters.
Process applications for branches of existing state institutions.
Process applications for holding company acquisitions.

Program Cost: \$1,416,292 Other Funds

Performance Measures:

<u>Workload:</u>	Calendar	
	<u>1998</u>	<u>1999</u>
Banks examined	39	39
Savings and loan associations examined	3	1
Credit unions examined	24	21
Trust companies examined	2	2
Development corporations examined	1	2
Preneed burial contract licensees examined	158	231
Preneed burial contract licenses issued	22	18
Applications for new banks processed	2	1
Application for a new trust company processed	1	0
Applications for bank branches	23	17
Application for credit union branches	0	2
Applications for trust company branches processed	2	0
Applications for holding company acquisitions processed	13	6
Applications for bank mergers processed	5	3
Application for a credit union merger processed	1	1

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State Board of Financial Institutions - Bank Examining Division (continued)

Outcome:

The number of banks supervised has increase by 8% in the past five years.

All state chartered banks, savings and loan associations, credit unions, trust companies, and business development corporations were examined within timeframes required by law.

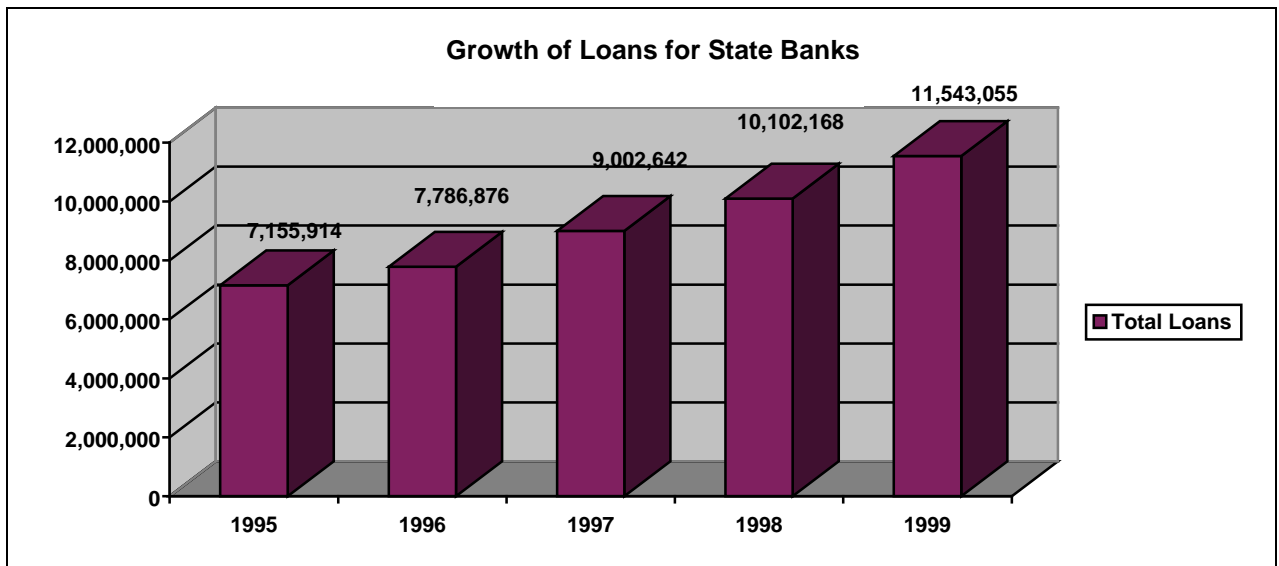
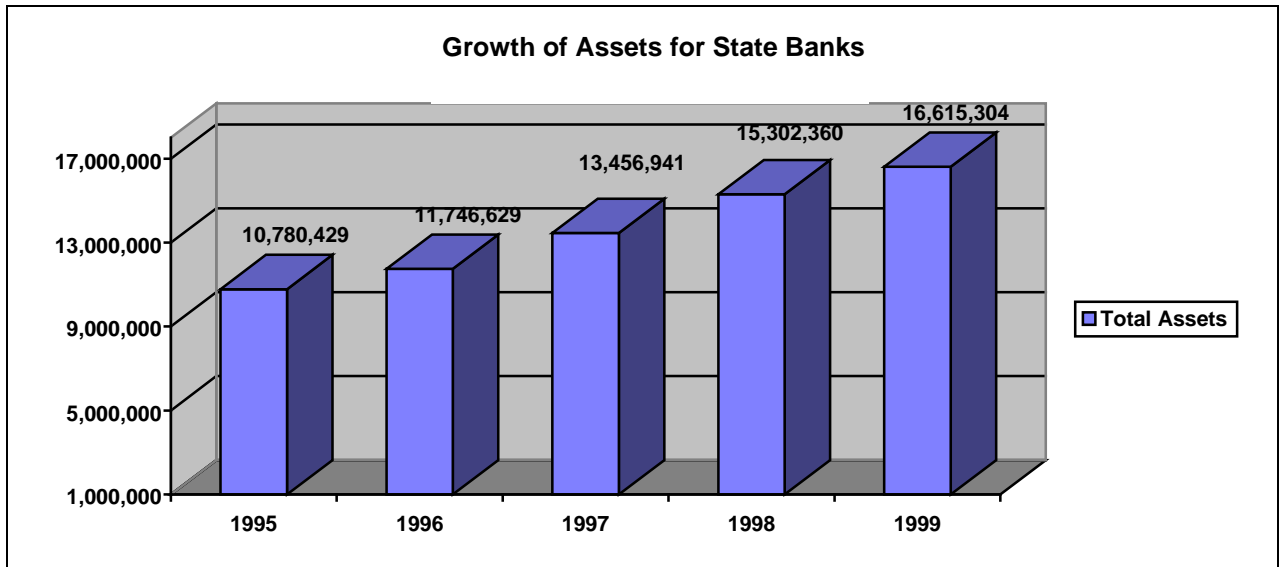
All pre-need burial contract licensees were examined within timeframes established within the program objective.

The banks supervised have grown considerably in the past five years. Banks under the Board's supervision have increased total assets by 134% and total loans have increased by 160%. The growth in assets and loans in state-chartered banks has increased the complexity and scope of examinations. Also, the size of individual loans which are subject to review has increased significantly.

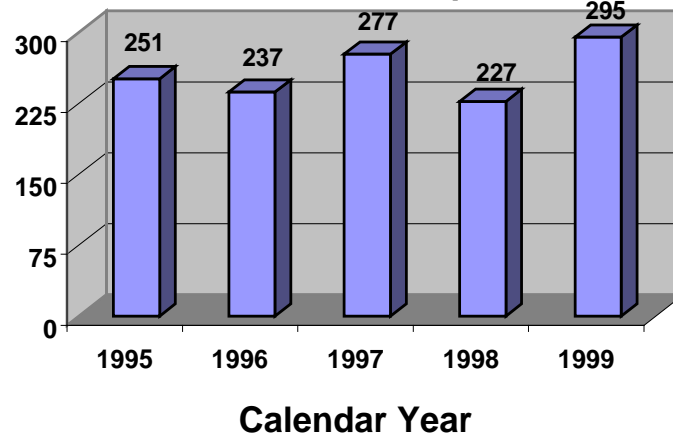
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Growth of Assets and Loans for State Banks

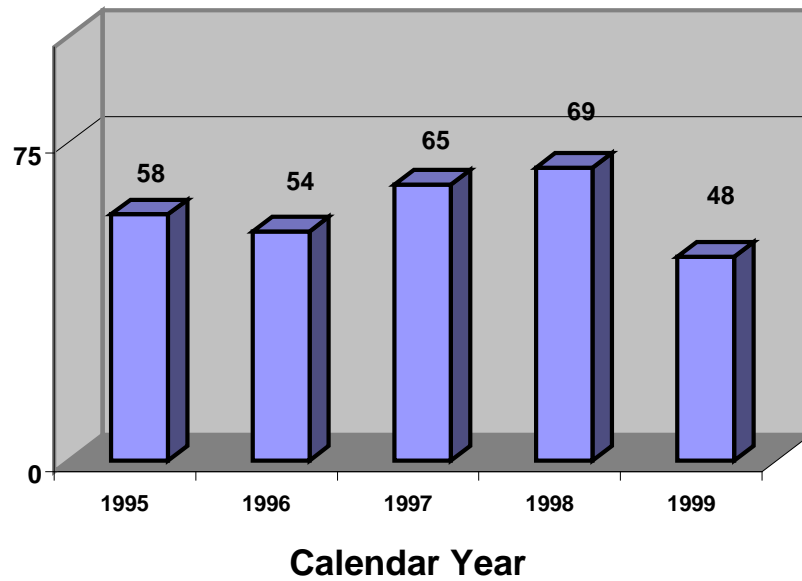
	12/31/94	12/31/99	Percent Change
Total Assets	7,087,869	16,615,304	134%
# of banks	52	56	8%
Average	136,305	296,702	118%
Total Loans	4,435,453	11,543,055	160%
# of banks	52	56	8%
Average	85,297	206,126	142%
Assets and Loans in thousands			



Bank Examining Division Examination Comparison



Bank Examining Division New Applications



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DESCRIPTION OF PROGRAMS:

Priority Ranking: Second

Program Name: State Board of Financial Institutions - Consumer Finance Division

Program Goal: License, examine and supervise each licensed consumer finance company and check cashing company.

Program Objectives: Examine all Restricted lenders, Supervised lenders and Check Cashing Companies as required by law.
Process applications for new Restricted lenders.
Process applications for new Supervised lenders.
Process applications for new Check Cashing companies.
Investigate all complaints to the fullest extent and best resolution for the consumer.

Program Cost: \$886,566 Other Funds

Performance Measures:

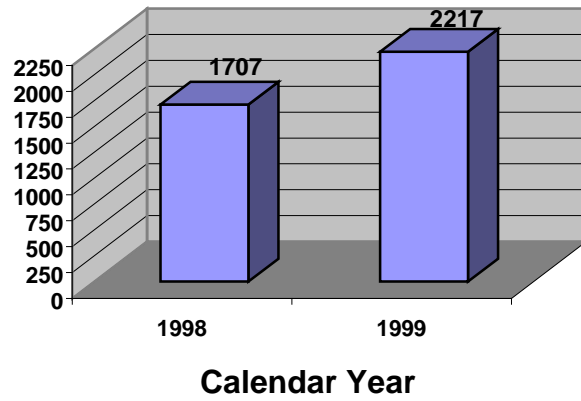
<u>Workload:</u>	Calendar	
	<u>1998</u>	<u>1999</u>
Restricted Licensees were examined	278	262
Supervised Licensees were examined	1429	1492
Deferred Presentment & Check Cashing were examined	New	463
New Restricted applications were investigated and approved for a Restricted License	9	7
Supervised applications were investigated and approved for a Supervised License	482	300
Check Cashing applications were investigated and approved for a Check Cashing License	375	254
Written complaints were received, investigated and brought to a successful conclusion	301	350
Death Claims were verified and proper refunds given to the beneficiary	1429	1501

Outcome:

The overall number of licenses issued increased by 9.4%. This increase was handled within budget.

All licensees were examined within timeframes required by law.

Consumer Division Examination Comparison



Consumer Division Applications Processed

